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| Project | **Liabilities – Amendments to IAS 37** |
| Topic | **Restructuring disclosures** |

## Purpose of paper

1. In April 2008, the Board tentatively decided to add to the revised IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* a requirement for entities to disclose information about any restructuring activities they are undertaking. The objective of this meeting is to approve the details of this disclosure requirement.

## Staff recommendation

2. The staff recommend that entities should be required to disclose the following information for a restructuring activity:

   - a description of the restructuring activity; (paragraphs 20-26)
   - segment(s) affected; (paragraphs 46-57)
   - the total amount of costs expected to be incurred in connection with the restructuring and cost incurred during the period along with cumulative incurred cost; (paragraphs 27-37) and
   - the expected timing of any resulting outflows of economic benefits (paragraphs 27-37).

## Background

### *IAS 37 requirements*

3. At present, IAS 37 concludes that an entity has a constructive obligation for all the costs of a restructuring activity as soon as it has started to implement a restructuring plan or announced the main features of the plan to those affected by it. As a result, IAS 37 requires entities to recognise a liability for

restructuring costs, in many cases, earlier than they would do applying the existing US GAAP equivalent, FASB Statement No. 146 *Accounting for Costs Associated with Exit or Disposal Activities*. FAS 146 requires recognition of separate liabilities for each of the costs arising from a restructuring activity when the entity incurs an obligation for that cost.

4. IAS 37 requires various disclosures to be provided about the recognised restructuring liability. This information and the amount of the liability recognised give users an indication of the scale of the restructuring activity at the beginning of the activity.

### *Exposure draft proposals*

5. The exposure draft of revised IAS 37 proposed aligning the recognition requirements of IAS 37 with those of FAS 146. Accordingly, the exposure draft proposed withdrawing the present requirements for the recognition of restructuring provisions in IAS 37. Instead it proposed that liabilities arising from costs associated with a restructuring would be recognised on the same basis as if those costs arose independently of a restructuring, namely when the entity incurs a liability that can be measured reliably. Thus, instead of an entity recognising at a specified point a single liability for all the costs associated with a restructuring, it would recognise a liability for each cost associated with the restructuring when the obligation for that cost is incurred.

6. This proposed change in recognition could result in information about restructurings being provided on a piecemeal basis over time because the Board did not propose any additional disclosure requirements for restructurings. In particular, when an entity first recognises a restructuring liability that liability would no longer include all the costs expected to be incurred in the restructuring. Accordingly, disclosure would relate only to the recognised liability—which could be a very small part of the total restructuring costs—rather than all of the costs expected to be incurred in the restructuring. It is therefore possible that users of financial statements would not get in one set of financial statements enough information to be able to understand the total scale of the restructuring activity.

7. This proposed change would also be likely to result in information about restructuring being disclosed later under the revised IAS 37 than it is today and under FAS 146. This is a result of the proposed change in recognition in IAS 37 and the fact that FAS 146 has a requirement to disclose information about the restructuring before any liability has been recognised.

8. It would also result in less information being provided about restructuring activities under IAS 37 than under FAS 146. FAS 146 has requirements to disclose information beyond the amount of the liability recognised. The FAS 146 disclosure requirement is reproduced in full in the appendix to this paper.

### *Comment letters and subsequent Board discussions*

9. At its meeting in April 2008, the Board discussed the comments received on the exposure draft's proposals for restructuring costs. In the light of widespread support, it reaffirmed the proposed changes to the recognition requirements. In response to requests from respondents, the Board also tentatively decided to add a requirement for entities to disclose details of restructuring activities.

10. The Board reviewed the disclosure requirements in FAS 146 and tentatively decided that similar, though possibly not quite so extensive, requirements should be added to the revised IAS 37.

11. The requirements that Board members suggested including in the disclosure requirement were:
    - a description of the restructuring activity;
    - the expected total costs and the timing of these costs;
    - the line items in the income statement in which restructuring costs are aggregated;
    - the segments affected; and
    - any impairment charge recognised in connection with the restructuring activity.

## Extent of the disclosure requirement

12. The extent of any new disclosure requirements will depend on the Board's overall objective. This section considers what the overall objective should be.

*Staff analysis*

13. The objective of adding disclosure requirements could be:

    (a) to align the disclosure requirements of IAS 37 with the requirements of FAS 146; or

    (b) to replace the disclosure requirements in IAS 37 and ensure that no information will be lost as a result of the change in recognition requirements; or

    (c) as for (b), but also to give consideration to the requirements of FAS 146 and suggestions made at the Board meeting in April 2008 that would improve the IAS 37 requirements without substantially increasing them.

14. If the Board opted for option (a), to increase the disclosure requirements by aligning them in all or most respects with FAS 146, it would be extending the requirements beyond those currently required by IAS 37. It should be noted that FAS 146 is a standard that deals only with exit and disposal activities, while the scope of IAS 37 is wider.

15. If option (b) were the objective, the presumption would be that the individual disclosure requirements of FAS 146 should be included in the revised IAS 37 only if they replace information that will be lost from IAS 37 as a result of the proposed changes to the recognition requirements.

16. The third option (c) would be to use the disclosure requirements of FAS 146 and suggestions by Board members as a starting point when formulating the requirements for the revised IAS 37. Hence, the requirements of FAS 146 that are consistent with the current IAS 37 requirements could be used as a basis for the new IAS 37 requirements. In addition, consideration could be given to adding new requirements from FAS 146 that might be considered especially useful as well as being compatible with the more general scope of IAS 37. When doing this, consideration should be given to not adding new requirements that might substantially increase the requirements.

*Staff conclusions and recommendations*

17. The staff think that the main objective of the new disclosure requirement should be to provide users with at least the same amount of information as would be provided under the current IAS 37.

18. The exposure draft of IAS 37 did not propose any changes to the disclosure requirements. In the comment letters, constituents raised concern only about the loss of information arising from the changes to the recognition requirements and did not request any additional disclosures. Therefore, option (b) would seem to satisfy constituents' concerns.

19. However, the staff think that in addition to replacing the disclosure requirements, consideration should be given to whether other requirements, especially the requirements of FAS 146, should be added to the disclosure requirement if they would result in useful information for users that should be easily obtainable by prepares.

| **Recommendation and question for the Board** |
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| The staff recommend that the revised disclosures for restructurings should aim to replace the current requirements, but also include additional requirements if they would add useful information that should be easily obtainable by prepares (ie, option (c) in paragraph 13). Do you agree? |

## Matters considered during drafting

***Description of restructuring activity***

20. The Board must decide what information entities should give when describing the restructuring activity. This section considers how prescriptive this requirement should be.

*Staff analysis*

21. The staff have identified two options:

    (a) to require the same disclosure as FAS 146, ie a description of the exit or disposal activity, including the facts and circumstances leading to the expected activity and the expected completion date; or

    (b) to require only a description of the restructuring activity without specifying what should be included in the description, ie the same requirement as for recognised liabilities in the exposure draft of IAS 37.

22. The approach in option (a) is more prescriptive about what should be included in the description of the restructuring activity. It could therefore be considered to extend the requirements beyond what is currently required under IAS 37.

23. At present, IAS 37 requires entities to disclose a brief description of the nature of the obligation for provisions. This requirement was retained in the exposure draft (except that the word 'brief' was deleted). This is consistent with option (b). Nonetheless, the requirement in option (b) to describe the restructuring, without any more detailed requirements as to what should be included in that description, might cover all the items in option (a).

24. Option (b) would allow entities to have the same option as they have today in choosing how to describe the restructuring and what to include in that description.

*Staff conclusions and recommendations*

25. The staff think that a requirement to disclose a description of the restructuring activity should be a part of the proposed disclosure requirement.

26. The staff do not think that there is need to add to the current requirements with respect to describing the obligation.

| **Recommendation and question for the Board** |
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| The staff recommend that entities should be required to disclose the nature of the restructuring activity (ie option (b) in paragraph 21). Do you agree? |

***Total costs and timing of these costs***

27. The next issue to consider is what information entities should disclose about costs associated with the restructuring and the timing of these costs.

*Staff analysis*

28. FAS 146 requires detailed analyses of the total costs and their timing:

> For each major type of cost associated with the activity (for example, one-time termination benefits, contract termination costs, and other associated costs):

(1) The total amount expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date

(2) A reconciliation of the beginning and ending liability balances showing separately the changes during the period attributable to costs incurred and charged to expense, costs paid or otherwise settled, and any adjustments to the liability with an explanation of the reason(s) therefor.

29. There are therefore three aspects of the FAS 146 disclosure with respect to costs:

- analysis of costs by type
- expected and incurred costs
- reconciliation of the liability.

*Analysis by type*

30. An analysis of the total expected costs by major type as required by FAS 146 could be of interest to users of financial statements. But IAS 37 does not require it at present and the staff do not see any strong arguments for adding such a requirement. Requiring disclosure only of the total costs, not an analysis by major type, should be sufficient.

*Expected and incurred costs*

31. FAS 146 requires entities to separately disclose the total costs expected to be incurred and the amounts incurred in the current period and to date. IAS 37 does not require information about the cumulative amounts of costs incurred in a single set of financial statements. It requires entities to recognise a single provision for (and disclose) the full expected cost of a restructuring when it is first implemented.

32. If the Board wants to provide users with at least the same information as currently provided by IAS 37, it will have to add some requirements regarding the total expected costs of the restructuring to the disclosure requirement. This is because as noted above entities will no longer recognise a single liability for the restructuring at the start of it and by doing so provide disclosure about the total amount of costs expected to be incurred.

33. If the Board requires information to be disclosed only in aggregate rather than by type (as discussed in paragraph 30), requiring disclosure of the cumulative costs incurred to date should not be unduly burdensome.

*Reconciliation*

34. FAS 146 has a requirement to reconcile the beginning and ending restructuring liability. As there are already requirements in the exposure draft to reconcile similarly each class of recognised liabilities, it can be argued that it should not be necessary to include such a requirement in the restructuring disclosure.

*Timing*

35. There is no requirement in the current IAS 37 to give information about the estimated completion date. It can be argued that the requirement to disclose information about the expected timing of any resulting outflows of economic benefits could provide users with that information.

*Staff conclusions and recommendations*

36. The staff think that the restructuring disclosure should include information about the total cost of the restructuring activity. The staff also think that the amount of costs incurred in the period and the cumulative amount incurred to date should be disclosed.

37. The staff think that a requirement to disclose information about the expected timing of resulting outflows of economic benefits, which would cover both incurred and expected costs, should be added to the disclosure requirement. That would give users an indication of when the restructuring is estimated to be completed.

| **Recommendation and questions for the Board** |
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| The staff recommend that the disclosure should include information about the total expected cost of the restructuring, the amount incurred in the period and the cumulative amount incurred to date. Do you agree?<br><br>The staff recommend that the disclosure should include information about the expected timing of outflows of economic benefits. Do you agree? |

***Line items in the income statements in which restructuring costs are aggregated***

38. The next issue the Board should consider is whether to disclose information about the line items in the income statement in which costs relating to the restructuring activity are aggregated.

*Staff analysis*

39. The options available to the Board are:

    (a) to include a requirement to disclose information about the line items in the income statement in which costs relating to the restructuring are aggregated, which is consistent with FAS 146 requirements; or

    (b) not to require disclosure of information about line items in the income statement where costs relating to the restructuring are aggregated.

40. If the Board opted for option (a), that is to add such a requirement, it would be introducing a new disclosure requirement to the standard.

41. There are currently no requirements in IAS 37 to disclose information about costs in this manner. This could, however, be considered useful information and, for example, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires entities to show separately the effects of discontinued operations in the income statement. Therefore disclosing information in this way could help users estimate the effect of the restructuring on future operating results.

42. If the Board choose option (b) not to add this requirement, it would be keeping the disclosure requirement as it currently is.

43. It could be argued that this is a presentation issue that IAS 1 *Presentation of Financial Statements* should deal with and, therefore, should not be addressed in IAS 37. The danger is that if entities would be required to show the line items in the income statement in which restructuring costs are aggregated, then the requirements might start to be too specific about these items within IAS 37. That is not the general approach in IFRSs. Doing so would also make it hard to dovetail the requirements into the IFRS principle based approach.

44. In addition, it could be argued that such a requirement is unnecessary. IAS 1, paragraph 97, requires entities to disclose the nature and amount of material expenses, with restructuring costs being listed as an example of such an expense.

*Staff conclusions and recommendations*

45. The staff therefore think that there is no need to add a requirement to disclose the line items in the income statement in which the restructuring costs are aggregated.

| **Recommendation and question for the Board** |
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| The staff recommend that the disclosure requirement should not require entities to disclose the line items in the income statement in which restructuring costs are aggregated (ie option (b) in paragraph 39). Do you agree? |

***Segments affected***

46. The Board must decide whether the disclosure requirement should include a requirement to disclose information about the segment(s) affected by the restructuring.

*Staff analysis*

47. The options available to the Board are:

    (a) to include a requirement that would align the disclosure requirement for segment(s) with those of FAS 146;

    (b) not require specifically any information in this disclosure to be analysed by segment; or

    (c) require that the segment(s) affected be named in the disclosure.

48. If the Board were to chose option (a) it would be introducing a new requirement. Currently there is no requirement in IAS 37 to disclose information about restructuring activity by segment.

49. FAS 146 requires entities to disclose the following segment information:

> d. For each reportable segment, the total amount of costs expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date, net of any adjustments to the liability with an explanation of the reason(s) therefor.

50. A requirement to show these cost for each reportable segment could seem appropriate. IFRS 8 *Operating Segments* requires entities to disclose information to enable users to evaluate the nature and financial effects of its business activities and the economic environment. Consistently with this, entities could be required to do the same in regards to restructurings. This is also information which could interest users.

51. If the Board were to choose option (b) it would not be changing the disclosure requirement in IAS 37.

52. It should be noted that there are requirements in IFRS 8 to disclose amounts by segments if they are reported to the chief decision makers[1]. Furthermore, there is also a requirement in paragraph 28(e) of IFRS 8 to reconcile all material amounts by segment to the entity total. As a result, it is likely that all material amounts within the restructuring would be reported by segment.

53. It could therefore be argued that there is little need to include an additional requirement to disclose by segment recognised restructuring costs and liabilities.

54. If the Board were to choose option (c) it would be extending the disclosure requirements as this is not required under current IAS 37. But users would always be informed about which segment(s) are affected by the restructuring, whereas they might not if an entity follows only the requirements of IFRS 8.

[1] IFRS 8 *Operating Segments*, paragraph 23

55. Option (c) would also represent only a small increase to existing disclosure requirement. Entities would not be required to analyse restructuring costs in more detail than already required by IFRS 8.

56. It might even be argued that information about the segment(s) affected should be a part of the description of the restructuring activity.

*Staff conclusions and recommendations*

57. The staff think it should be sufficient to require disclosure only of the name of the segment(s) affected by the restructuring. This would provide users with useful information about which segment(s) are affected by the restructuring activity. The staff do not think all information should be disclosed by segment(s) because that would be a significant extension of the current disclosure requirements.

| **Recommendation and question for the Board** |
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| The staff recommend that disclosure requirement should include the name(s) of the segment(s) affected by the restructuring activity (ie option (c) in paragraph 47). Do you agree? |

***Other requirements of FAS 146***

*Staff analysis*

58. FAS 146 also requires disclosure about instances in which a liability associated with an exit or disposal activity is not recognised because its fair value cannot be reasonably estimated. The Board tentatively decided in April 2008 not to include this requirement. The exposure draft already proposes a requirement to disclose information about liabilities that are not recognised because they cannot be measured reliably. Therefore no further requirements relating to non recognised restructuring liabilities are needed.

*Staff conclusions and recommendations*

59. The staff do not think that there is need to consider the above requirement when preparing the disclosure requirements for restructuring activities.

| Recommendation and question for the Board |
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| The staff recommend not to include a specific requirement to disclose instances when liabilities relating to the restructuring activity cannot be measured reliably.  Do you agree? |

***Impairments recognised as a result of the restructuring***

60. The Board must decide whether the disclosure requirement should include a requirement to disclose any impairment losses recognised in connection with the restructuring.  This is not a FAS 146 requirement, but was suggested by a Board member at the Board meeting in April 2008.

*Staff analysis*

61. The options available to the Board are:

    (a) include a requirement to disclose impairment losses recognised in connection with a restructuring activity; or

    (b) not include a requirement to disclose impairment losses recognised in connection with a restructuring activity.

62. If the Board were to choose option (a) it would be extending the requirement from the current standard.

63. However, information about the impairment costs resulting from a restructuring activity might be considered relevant information to users.  In combination with the disclosure about the expected cost to be incurred, it provides a complete picture of the total cost of the restructuring activity.

64. The proposed disclosure requirement is aimed at catching all costs related to a restructuring activity, including expected costs.  It could therefore be argued that a requirement to include all costs should include all impairment resulting from the restructuring activity.

65. It can also be argued that to get the complete picture of the restructuring, the future expenses and impairment should be disclosed together.  One of the criticisms regarding disclosures in IFRSs (eg with off balance sheet items) is that the disclosures are fragmented and scattered over the financial statements.

Therefore it might seem appropriate to include this information in this disclosure.

66. If the Board were to choose option (b) it would not be changing the disclosure requirements in IAS 37.

67. It should be noted that there are already requirements to disclose information about impairment in IAS 36 *Impairment of Assets*. Paragraph 130 of IAS 36 requires the disclosure of any material impairment loss which is recognised for an individual cash generating unit. It also requires disclosure of the events leading up to the recognition of the loss, the amount recognised, a description of the cash generating unit and more detailed information. Therefore it could be argued that, if a restructuring activity leads to a material impairment, it is highly likely that full details will be disclosed as a result of this IAS 36 disclosure requirement. Therefore no further requirements would be needed in IAS 37.

*Staff conclusions and recommendations*

68. The staff think that there is no need for IAS 37 to require disclosure of impairments resulting from the restructuring activity.

| **Recommendation and question for the Board** |
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| The staff recommend that the disclosure requirement should not include a requirement to disclose impairment resulting from the restructuring activity (ie option (b) in paragraph 61). Do you agree? |

### *When to require disclosure*

69. Finally the Board must decide when the restructuring disclosure should be required.

*Staff analysis*

70. IAS 37 requires a single restructuring liability to be recognised when the entity starts to implement a detailed restructuring plan or announces the plan's main features to those affected by it. Hence, all of the costs expected to be incurred in settling that liability are recognised and disclosed at that one point. The point

when this liability is recognised might therefore be before any costs in relation to the restructuring have been incurred.

71. Although FAS 146 requires entities to recognise a liability for a restructuring cost only when a liability has been incurred, there are nonetheless requirements to disclose information about restructurings as the plan is initiated, whether or not any liability is recognised at that date. The reasoning behind this is explained in the basis for conclusion accompanying FAS 146:

> B56. During its deliberations leading to the Exposure Draft, the Board observed that certain costs that were recognized as liabilities at a plan (commitment) date under Issue 94-3 would be recognized as liabilities at a later date under this Statement. The Board concluded that information about the costs the entity expects to incur in connection with an exit or disposal activity is useful in assessing the effects of the activity initially and over time. For that reason, the Board decided to require disclosure of the major types of costs expected to be incurred in connection with the exit or disposal activity at the date an entity initiates a plan, whether or not a liability for those costs is recognized at that date. The Board affirmed that decision in this Statement.

72. FAS 146 requires information to be disclosed in ‘financial statements that include the period in which an exit or disposal activity is initiated … and any subsequent period until the activity is completed’.

73. FAS 146 then goes on to explain that ‘initiated’ means ‘when management, having the authority to approve the action, commits to an exit or disposal plan or otherwise disposes of long-lived assets (disposal group) and, if the activity involves the termination of employees, the criteria for a plan of termination … are met’.

74. The term ‘initiated’ which is used in FAS 146 is not used in the current IAS 37 nor is it used in the exposure draft. The term that is used in the current and proposed standard is ‘implemented’. The term is not defined in the standard but it has been used in the current IAS 37 and is a part of the IFRS literature. It has therefore been left to management’s judgement to decide when a restructuring activity is considered to be implemented and there is nothing that suggests that this should be changed.

75. The other thing that needs to be considered is for how long the restructuring disclosure should be required. It could be considered logical to require this

disclosure until the period in which the restructuring activity is completed, because that would provide users with information about the total cost of the restructuring.

76. As there are proposed requirements to reconcile the amounts recognised, it will follow logically that disclosure should be required until the period in which the restructuring is completed and all costs relating to it have been incurred.

*Staff conclusions and recommendations*

77. The staff think that disclosure should be required in the first period in which a restructuring plan is implemented, or its main features are announced to those affected by it, ie at same point in time as liabilities for restructurings are recognised applying current IAS 37. This would not necessarily be at the same point as under FAS 146, because the respective triggers for disclosure would differ. The IAS 37 trigger would be ‘implementing and announcing [the restructuring’s] main features’ while the trigger in FAS 146 is that the entity ‘commits to an exit or disposal plan’. These would not necessarily be the same dates.

78. The staff think that it is necessary to prescribe for how long disclosures should be required. The last period of disclosure should be the period in which the restructuring activity is completed. In most circumstances this would be the period in which the final costs relating to the restructuring are recognised.

| **Recommendation and question for the Board** |
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| The staff recommend that the disclosure should be required when an entity implements the restructuring plan or has announced the main features of the plan to those affected by it and until the restructuring activity has been completed. Do you agree? |

***Staff conclusion and recommendation***

79. In the light of the analysis above, the staff propose the following wording for a requirement to disclose restructuring activities in the revised IAS 37:

In the period in which an entity first implements a restructuring plan or announces its main features to those affected by it and any subsequent periods until the restructuring has been completed, the entity shall disclose:

a) a description of the nature of the restructuring activity, including the segment(s) affected;

b) the total amount expected to be incurred in connection with the restructuring activity, the amount incurred in the period and the cumulative amount incurred to date,

c) the expected timing of any resulting outflows of economic benefits.

| Recommendation and question for the Board |
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| The staff recommend the wording proposed in paragraph 79. Do you agree? |

# Appendix

Disclosure requirements of FAS 146:

The following information shall be disclosed in notes to financial statements that include the period in which an exit or disposal activity is initiated (refer to paragraph 21) and any subsequent period until the activity is completed:

a. A description of the exit or disposal activity, including the facts and circumstances leading to the expected activity and the expected completion date

b. For each major type of cost associated with the activity (for example, one-time termination benefits, contract termination costs, and other associated costs):

    (1) The total amount expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date

    (2) A reconciliation of the beginning and ending liability balances showing separately the changes during the period attributable to costs incurred and charged to expense, costs paid or otherwise settled, and any adjustments to the liability with an explanation of the reason(s) therefor

c. The line item(s) in the income statement or the statement of activities in which the costs in (b) above are aggregated

d. For each reportable segment, the total amount of costs expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date, net of any adjustments to the liability with an explanation of the reason(s) therefor

e. If a liability for a cost associated with the activity is not recognized because fair value cannot be reasonably estimated, that fact and the reasons therefor.